

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Chippewa County EDC	County Chippewa
Fiscal Year End December 31, 2006	Opinion Date January 22, 2007	Date Audit Report Submitted to State March 5, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

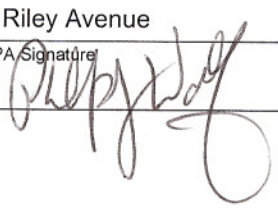
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952		
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI	Zip 49788
Authorizing CPA Signature 		Printed Name Phillip J. Wolf		License Number 1101017275

**ECONOMIC DEVELOPMENT CORPORATION
OF CHIPPEWA COUNTY**

**BASIC FINANCIAL STATEMENTS
AND MANAGEMENT'S DISCUSSION AND ANALYSIS**

YEAR ENDED DECEMBER 31, 2006

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Statement of Net Assets	7
Statement of Revenues, Expenses, and Changes in Net Assets	8
Statement of Cash Flows	9
NOTES TO FINANCIAL STATEMENTS	10
SUPPLEMENTARY INFORMATION:	
Combining Statement of Operating Revenues and Expenses	19
REPORT ON COMPLIANCE:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Members of the Board
Economic Development Corporation
of Chippewa County
Kincheloe, Michigan 49788

We have audited the accompanying financial statements of the business-type activity and major fund of the Economic Development Corporation of Chippewa County, Michigan (a component unit of Chippewa County, Michigan) as of and for the year ended December 31, 2006, which collectively comprise the Economic Development Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Economic Development Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and major fund of the Economic Development Corporation of Chippewa County, Michigan, as of December 31, 2006, and the respective changes in financial position, and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2007 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements. The schedule presented in the "Supplementary Information" section is for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

January 22, 2007

Management's Discussion and Analysis

This section of the Economic Development Corporation of Chippewa County, annual financial report presents our discussion and analysis of the Economic Development Corporation financial performance during the fiscal year that ended on December 31, 2006. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Revenue increased by \$618,434 or 37.75% over 2006 levels:

General	\$	(10,544)	(13.4)%
Airport		121,669	17.3 %
Industrial Park		387,169	253.9 %
General Motors		120,140	20.4 %

Total operational expenses, including depreciation, for the year increased by \$229,172 or 5.8% as compared with the previous year.

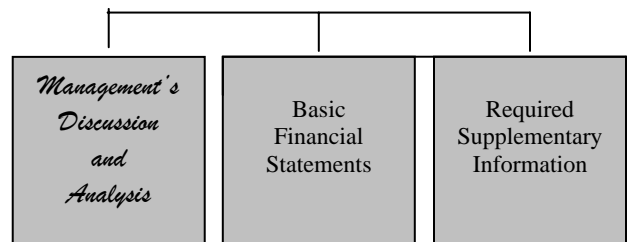
The EDC administered a Community Development Block Grant totaling \$1,452,609, which includes a \$465,679 investment in building improvements

The airport participated in the FAA's Airport Improvement Program, totaling \$1,748,604 for: terminal building modifications, Phase II of runway 16/34 concrete rehabilitation, refurbish taxiway lighting, supplemental windcones as well as the acquisition of snow removal equipment.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the Economic Development Corporation.

Figure A-1
Components of Chippewa County
Economic Development Corporation
Financial Report



- The financial statements provide both long-term and short-term information about the overall financial status of the Economic Development Corporation, including long term financing that is used to finance capital improvements such as facility restoration and development of new programs.

FINANCIAL ANALYSIS OF THE ECONOMIC DEVELOPMENT CORPORATION

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of supplemental information that further explains and supports the information in the financial statements. Figure A-1 shows how the sections of this annual report are arranged and relate to one another.

Table A-1
Economic Development Corporation of Chippewa County
(in thousands of dollars)

	Corporate Activities		Total Percentage Change 2005-2006
	2005	2006	
Current and other assets	\$ 962	\$ 1,027	6.76 %
Capital assets	<u>20,226</u>	<u>21,148</u>	<u>4.56 %</u>
Total assets	21,188	22,175	4.66 %
Current liabilities	671	570	(15.06)%
Long-term debt outstanding	<u>77</u>	<u>69</u>	<u>(10.39)%</u>
Total liabilities	748	639	(14.58)%
Net assets			
Invested in capital assets, net of related debt	19,733	21,115	7.01 %
Unrestricted	<u>707</u>	<u>421</u>	<u>(40.46)%</u>
Total net assets	<u>\$ 20,440</u>	<u>\$ 21,536</u>	<u>5.37 %</u>

Net assets of the Economic Development Corporations increased 5.37% to almost \$22 million. However, only 2% of net assets are not restricted.

FINANCIAL ANALYSIS OF THE ECONOMIC DEVELOPMENT CORPORATION (Continued)

Table A-2
Economic Development Corporation of Chippewa County
Changes in Net Assets
(in thousands of dollars)

	Corporate Activities		Total Percentage Change 2005-2006
	2005	2006	
Revenues			
Charges for services	\$ 1,640	\$ 2,259	37.75 %
Interest & other	1,619	1,653	2.10 %
Total Revenues	3,259	3,912	20.04 %
Expenses			
Operations	2,570	2,799	8.91 %
Interest expense	25	17	(32.00) %
Total Expenses	2,595	2,816	8.52 %
Changes in net assets	664	1,096	65.06 %
Beginning net assets	19,776	20,440	3.36 %
Ending net assets	\$ 20,440	\$ 21,536	\$ 5.37 %

Total revenues increased 17.59%, most of which is attributable to grant funding and local contributions. Total expenses increased by 5.44% due primarily to increased fuel expenditures, plus program improvements and inflationary cost increases.

CAPITAL ASSETS

At the end of 2006, the Economic Development Corporation had increased investment in capital assets by \$1.805 million including improvements, new machinery and equipment.

Table A-3
Economic Development Corporation of Chippewa County
Capital Assets
(in thousands of dollars)

	Corporate Activities		Total Percentage Change 2005-2006
	2005	2006	
Improvements	\$ 10,451	\$ 12,235	17.07 %
Land	1,947	1,947	- %
Buildings	10,129	10,129	- %
Vehicles and equipment	4,299	4,320	.49 %
Totals	\$ 26,826	\$ 28,631	6.73 %

DEBT OBLIGATIONS

Changes in corporate debt for fiscal 2006 are as follows:

	Corporate Activities		Total Percentage Change 2005-2006
	2005	2006	
Leases payable	\$ 13,733	\$ 5,223	(61.97)%
Notes payable	49,751	28,247	(43.23)%
Revolving line of credit	429,379	388,142	(9.61)%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Corporation negotiated a new two year winter automotive testing agreement, which will bring increased revenue.

The Corporation is anticipating improved return on its investments as interest rates continue to improve.

There is concern regarding the State's financial condition, which has resulted in the loss of airport grant funds, totaling \$30,500, and the elimination of the EDC's airport marketing program for the year 2007.

The Corporation's 2007 operational budget forecasts a 15.7% (\$288,388) increase in revenues, as well as a 7.9% (\$124,684) increase in expenses, as compared with 2006 levels.

**CONTACTING ECONOMIC DEVELOPMENT CORPORATION OF CHIPPEWA COUNTY
FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Economic Development Corporation of Chippewa County finances and to demonstrate Economic Development Corporation of Chippewa County accountability for the money it receives for the construction, improvement and maintenance of development programs. If you have questions about this report or need additional financial information, contact the Economic Development Corporation of Chippewa County administrative office at 5019 W. Airport Drive, Kincheloe, Michigan 49788.

Basic Financial Statements

Economic Development Corporation of Chippewa County

Statement of Net Assets December 31, 2006

ASSETS:

Current Assets:

Cash and Equivalents	- Unrestricted	\$	406,460
	- Designated		380,053
Interest Receivable			878
Accounts Receivable			197,113
Inventory			<u>42,050</u>
Total Current Assets			<u>1,026,554</u>

Capital Assets:

Construction in Progress			247,450
Land			1,946,675
Buildings			10,128,618
Vehicles			1,069,491
Equipment			3,251,015
Improvements			12,235,093
Accumulated Depreciation			<u>(7,729,935)</u>
Total Capital Assets			<u>21,148,407</u>
Total Assets		\$	<u>22,174,961</u>

LIABILITIES:

Current Liabilities:

Short Term Note Payable		\$	388,142
Accounts Payable and Other Liabilities			51,737
Amounts Due to Primary Government			38,293
Due to State			35,665
Current Maturities on Debt Obligations			13,143
Current Maturities on Lease Obligations			5,223
Deferred Revenue			<u>38,293</u>
Total Current Liabilities			<u>570,496</u>

Long-Term Liabilities:

Notes Payable			15,104
Vested Sick Pay			<u>53,591</u>
Total Long-Term Liabilities			<u>68,695</u>
Total Liabilities		\$	<u>639,191</u>

Net Assets:

Invested in Capital Assets (net of related debt)			21,114,937
Unrestricted			<u>420,833</u>
Total Net Assets		\$	<u>21,535,770</u>

Economic Development Corporation of Chippewa County

Statement of Revenues, Expenses, and Changes in Net Assets Year Ended December 31, 2006

OPERATING REVENUES:

Leases and Rentals	\$ 577,503
Passenger Facility Charge	54,999
Expense Reimbursements	639,113
Airport Fees	558,067
Other	<u>429,155</u>

Total Operating Revenues	<u>2,258,837</u>
--------------------------	------------------

OPERATING EXPENSES:

Compensation and Fringe Benefits	549,135
Utilities	197,700
Board of Directors	17,199
Travel	2,071
Advertising and Promotion	125,410
Office	63,855
Contracted Services	26,392
Repair and Maintenance	54,147
Depreciation	1,133,334
Insurance	47,179
Supplies	528,933
Other	<u>53,299</u>

Total Operating Expenses	<u>2,798,654</u>
--------------------------	------------------

Operating Income (Loss)	<u>(539,817)</u>
-------------------------	------------------

NON-OPERATING REVENUES (EXPENSES):

Grants	1,625,076
Interest Income	27,502
Interest Expense	<u>(17,187)</u>

Total Non-Operating Revenues (Expenses)	<u>1,635,391</u>
---	------------------

Changes in Net Assets	1,095,574
-----------------------	-----------

Net Assets, Beginning of Year	<u>20,440,196</u>
-------------------------------	-------------------

NET ASSETS, END OF YEAR	<u>\$ 21,535,770</u>
-------------------------	----------------------

Economic Development Corporation of Chippewa County

Statement of Cash Flows Year Ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from Customers	\$ 2,102,099
Payments to Employees	(555,142)
Payments to Suppliers	(1,084,700)
Other Receipts (Payments)	<u>35,667</u>
Net Cash Provided (Used) by Operating Activities	<u>497,924</u>

CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:

Nonoperating Grants	78,472
Other Transactions	<u>4,856</u>
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>83,328</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Capital Grants	1,546,604
Acquisition and Construction of Capital Assets (net)	(2,055,906)
Interest Paid on Notes and Leases Payable	(17,187)
Principal Paid on Notes and Leases Payable	<u>(71,273)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(597,762)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on Investments	<u>27,502</u>
Net Cash Provided (Used) by Investing Activities	<u>27,502</u>

Net Cash Provided (Used) – All Activities

10,992

Cash and Cash Equivalents at Beginning of Year

775,521

Cash and Cash Equivalents at End of Year

\$ 786,513

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET

CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (Loss)	\$ (539,817)
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
Depreciation Expense	1,133,334
Change in Assets and Liabilities:	
Receivables, net	(49,434)
Inventories	(3,619)
Accounts and Other Payables	(15,236)
Deferred Revenue	<u>(27,304)</u>

Net Cash Provided (Used) by Operating Activities

\$ 497,924

Other Non-Cash Transactions:

Purchase of Capital Assets with Grants	<u>\$ 1,546,604</u>
--	---------------------

Notes to Financial Statements

NOTE 1 - REPORTING ENTITY

In accordance with the criteria established by the Governmental Accounting Standards Board, the Economic Development Corporation of Chippewa County is considered a component unit of Chippewa County for financial accounting and reporting purposes. These criteria include: the extent of oversight responsibility, selection of governing authority, designation of management, the ability of the County to significantly influence operations, the accountability for fiscal matters including the level of County financing and/or moral or legal responsibility for long-term debt. Therefore, the financial statements of the Economic Development Corporation of Chippewa County are presented as the financial statements of a component unit, which is an integral part of the financial reporting oversight unit of the County of Chippewa, Michigan.

The Economic Development Corporation of Chippewa County, organized pursuant to Act 338 of the Michigan Public Acts of 1974, as amended, for the purpose of strengthening and revitalizing the economy of Chippewa County.

The Corporation is a public corporate body, constituting an instrumentality of the County of Chippewa, Michigan, which exercises its prescribed statutory powers, duties and functions within, but independently of Chippewa County. It has been granted the management and control of properties and grants obtained when the Kincheloe Air Force Base was closed.

The Corporation consists of nine members, all appointed by the County, for terms of six years each, but no more than three members appointed shall be members of the County Board.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Economic Development Corporation of Chippewa County, have been prepared on the accrual basis. The significant accounting policies are described below to enhance the usefulness of the financial statements.

The Board applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

FUND ACCOUNTING

To ensure observance of limitations and restrictions placed on the use of resources available to the Corporation, the accounts are maintained in accordance with the principles of accrual based accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each cost center. The assets, liabilities and net assets of the Corporation are recorded in self-balancing accounts, one major fund as follows:

- General Operations
- Airport
- Industrial Park
- G.M. Operations

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business-type activity funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for rent and sales. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. There is only one major fund, the operating fund.

Assets, Liabilities, and Net Assets or EquityCash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

Accounts Receivable

The Corporation has not established an allowance for uncollectible accounts since, in the opinion of management the amount is not significant.

Inventories

Fuel inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to fuel purchases as acquired.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in the fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., runways, rails, fencing, and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Economic Development Corporation of Chippewa County as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The EDC of Chippewa County has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Depreciation

Depreciation is computed on the straight-line method for all assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Improvements	5 to 20 years
Vehicles	4 to 10 years
Equipment	4 to 10 years
Infrastructure	8 to 30 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Compensated Absences (Vacation and Sick Leave)

The accumulation of vacation hours for employees is based on time earned at current pay rates. Employees accrued vacation time on a scale based on longevity between 4 and 17 hours per month. Vacation pay is remitted upon severance. Each regular employee hired after 1993 is provided with payment for sick leave not used of \$40 per day to a maximum of 30 days. Full-time employees are provided with 10 hours per month of sick leave benefit. Each employee receives payment for sick leave not used as of retirement up to a maximum of 960 hours.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - CASH AND INVESTMENTS

Imprest Cash	\$ 480
Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	<u>786,033</u>
Total Cash	<u>\$ 786,513</u>

NOTE 3 - CASH AND INVESTMENTS (Continued)

Michigan Compiled Laws, Section 129.91, authorizes the Corporation to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the state of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Corporation has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

Interest rate risk. The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Corporation has no investment policy that would further limit its investment choices.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned. State law does not require and the Corporation does not have a policy for deposit custodial credit risk. As of year end, \$601,308 of the Corporation's bank balance of \$801,308 was exposed to credit risk because it was uninsured and uncollateralized.

Designated Cash

Cash is reserved in the Building Fund in the amount of \$343,343, which represents the entire cash balance for the fund. All disbursements from this fund are limited to the maintenance, operation, and capital improvements of the industrial park buildings.

Cash is reserved for payment of vested sick pay in the amount of \$36,710.

NOTE 4 - CAPITAL ASSETS

A summary of capital assets follows:

	<u>01/01/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/06</u>
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$ 247,450	\$ -	\$ -	\$ 247,450
Land	<u>1,946,675</u>	<u>-</u>	<u>-</u>	<u>1,946,675</u>
Subtotal	<u>2,194,125</u>	<u>-</u>	<u>-</u>	<u>2,194,125</u>

Economic Development Corporation of Chippewa County

Notes to Financial Statements December 31, 2006

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>01/01/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/06</u>
<i>Capital assets being depreciated:</i>				
Vehicles	1,080,855	-	11,364	1,069,491
Improvements	10,450,531	2,020,619	236,057	12,235,093
Buildings	10,128,618	-	-	10,128,618
Equipment	<u>3,218,596</u>	<u>35,287</u>	<u>2,868</u>	<u>3,251,015</u>
Subtotal	<u>24,878,600</u>	<u>2,055,906</u>	<u>250,289</u>	<u>26,684,217</u>
<i>Less accumulated depreciation:</i>				
Vehicles	898,725	42,399	11,364	929,760
Improvements	2,114,575	467,415	236,057	2,345,933
Buildings	2,673,745	286,691	-	2,960,436
Equipment	<u>1,159,845</u>	<u>336,829</u>	<u>2,868</u>	<u>1,493,806</u>
Subtotal	<u>6,846,890</u>	<u>1,133,334</u>	<u>250,289</u>	<u>7,729,935</u>
Net Capital Assets Being Depreciated	<u>18,031,710</u>	<u>922,572</u>	<u>-</u>	<u>18,954,282</u>
Capital assets – Net of depreciation	<u>\$ 20,225,835</u>	<u>922,572</u>	<u>\$ -</u>	<u>\$ 21,148,407</u>

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following:

	<u>Balance 01/01/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/06</u>	<u>Due Within One Year</u>
Installment payable to Michigan Aeronautics Commission, payable annually (October) in the amount of \$12,763, including interest of 4.7% per annum. Matures in 2008, general obligation debt.	\$ 35,379	\$ -	\$ 11,632	\$ 23,747	\$ 11,643
Installment Payable to the Michigan Department of Transportation, payable annually, \$8,372 principal plus interest at 2% below prime, unsecured.	8,372	-	8,372	-	-
Installment Payable to the Michigan Department of Transportation, payable annually, \$1,500 principal plus interest at 2% below prime, unsecured.	<u>6,000</u>	<u>-</u>	<u>1,500</u>	<u>4,500</u>	<u>1,500</u>
TOTAL LONG-TERM DEBT	<u>\$ 49,751</u>	<u>\$ -</u>	<u>\$ 21,504</u>	<u>\$ 28,247</u>	

NOTE 5 - LONG-TERM DEBT (Continued)

A summary of debt service requirements is as follows:

Year	General Obligation Debt		Totals
	Principal	Interest	
2007	\$ 13,143	\$ 1,210	\$ 14,353
2008	13,604	633	14,237
2009	<u>1,500</u>	<u>30</u>	<u>1,530</u>
TOTAL	<u>\$ 28,247</u>	<u>\$ 1,873</u>	<u>\$ 30,120</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Economic Development Corporation participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Chippewa County Unit. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 1134 Municipal Way, Lansing, Michigan.

Funding Policy – The obligation to contribute and maintain the system for these employees requires an employer contribution of 5.63% of wages for general employees and 4.97% for officials. Employees are required to contribute 2% and officials are required to contribute 4% of gross wages to the plan.

Annual Pension Costs – For year ended 2006, the Corporation's annual pension cost of \$13,506 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2004, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 (should be as of the date of the actuaries report) follows:

	GENERAL		
	2003	2004	2005
Actuarial Value of Assets	\$ 404,153	\$ 446,989	\$ 487,994
Actuarial Accrued Liability	461,885	424,633	469,220
Unfunded AAL	57,732	(22,356)	(18,774)
Funded Ratio	88%	105%	104%
Covered Payroll	230,614	167,596	182,675
UAAL as a Percentage of Covered Payroll	25%	0%	0%

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

	OFFICIALS		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial Value of Assets	\$ 222,354	\$ 244,406	\$ 266,545
Actuarial Accrued Liability	255,278	257,703	272,191
Unfunded AAL	32,924	13,297	5,646
Funded Ratio	87%	95%	98%
Covered Payroll	54,203	54,203	54,705
UAAL as a Percentage of Covered Payroll	61%	25%	11%

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 22,600	100%	0
2005	21,163	100%	0
2006	13,506	100%	0

Defined Contribution Pension Plan

The Corporation provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by agreement, the Corporation contributes a varying percentage of gross earnings. Contributions for each employee (plus interest allocated to the employee's account) are fully vested.

The current year contribution was calculated based on covered payroll of \$24,616 resulting in an employer contribution of \$0 and employee contributions of \$1,040.

NOTE 7 - LEASES COMMITMENTS

Equipment under a capital lease totaled \$15,669 and is amortized over the individual assets estimated useful life and included as depreciation expense.

The Economic Development Corporation entered into a capital lease obligations as listed below:

	<u>Equipment Lease</u>
2007	\$ 5,223
Total	<u>\$ 5,223</u>
Interest Charges	\$ -
% Interest	0%
Annual Payment	\$ 5,223

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Grants - The Corporation has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Corporation. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Corporation at December 31, 2006.

Risk Management - The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Corporation was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Corporation joined together with the County and created a public entity risk pool currently operating as a common risk management and insurance program. The Corporation pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Corporation is unable to provide an estimate of the amounts of additional assessments.

NOTE 9 - SHORT TERM NOTES PAYABLE

Short-term debt consists of the following:

	<u>Balance</u> <u>01/01/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/06</u>
Installment payable to a local financial institution, monthly at 4.9% interest, matures July 2007, secured by assets of corporation.	<u>\$ 429,379</u>	<u>\$ -</u>	<u>\$ 41,237</u>	<u>\$ 388,142</u>

NOTE 10 - POST EMPLOYMENT BENEFITS

In addition to the pension benefits, the EDC will provide post-employment health care insurance benefits to those employees hired prior to January 1, 1990. The EDC will pay a portion of premiums, up to full "family" limits at various rates based on the years of service and age as described in the EDC Policy. As of December 31, 2006, no employees were eligible to receive benefits.

NOTE 11 - GRANT AWARDS

During fiscal 2006, the Economic Development Corporation received significant funding in the form of federal and state awards. The U.S. Department of Transportation awarded two Airport Improvement Grants in the amount of \$1,661,174 for rehabilitation of taxiway lighting, installation of wind cones, terminal improvements and runway rehabilitation. Additionally, the Corporation administered a Community Development Block Grant on behalf of Chippewa County, Michigan in the amount of \$120,000 for building improvements and job creation in the industrial park. These grants are reported in the Schedule of Expenditures of Federal Awards of Chippewa County, Michigan.

The Corporation also received a state grant in the amount of \$80,000 for airline service and additional state awards of \$69,803 for airport marketing and capital expenditures.

Supplementary Information

Economic Development Corporation of Chippewa County**Combining Statement of Operating Revenues and Expenses
Year Ended December 31, 2006**

	<u>General Operations</u>	<u>Airport</u>	<u>Industrial Park</u>	<u>GM Project</u>	<u>Total</u>
OPERATING REVENUES:					
Leases and Rentals	\$ 40	\$ 195,324	\$ 312,098	\$ 70,041	\$ 577,503
Passenger Facility Charge	-	54,999	-	-	54,999
Expense Reimbursements	-	-	-	639,113	639,113
Airport Fees	-	558,067	-	-	558,067
Other	<u>68,001</u>	<u>15,474</u>	<u>345,680</u>	<u>-</u>	<u>429,155</u>
Total Operating Revenues	<u>68,041</u>	<u>823,864</u>	<u>657,778</u>	<u>709,154</u>	<u>2,258,837</u>
OPERATING EXPENSES:					
Compensation and Fringe Benefits	-	258,093	16,474	274,568	549,135
Utilities	36,499	86,346	9,043	65,812	197,700
Board of Directors	17,199	-	-	-	17,199
Travel	696	1,375	-	-	2,071
Advertising and Promotion	19	125,391	-	-	125,410
Office	5,405	773	-	57,677	63,855
Contracted Services	6,724	19,668	-	-	26,392
Repair and Maintenance	33,876	13,056	-	7,215	54,147
Depreciation	11,859	865,922	255,553	-	1,133,334
Insurance	25,494	21,685	-	-	47,179
Supplies	72,933	433,396	-	22,604	528,933
Other	<u>20,850</u>	<u>8,967</u>	<u>1,618</u>	<u>21,864</u>	<u>53,299</u>
Total Operating Expenses	<u>231,554</u>	<u>1,834,672</u>	<u>282,688</u>	<u>449,740</u>	<u>2,798,654</u>
Allocations	<u>(231,554)</u>	<u>108,830</u>	<u>6,947</u>	<u>115,777</u>	<u>-</u>
Total Operating Income (Loss)	<u>68,041</u>	<u>(1,119,638)</u>	<u>368,143</u>	<u>143,637</u>	<u>(539,817)</u>
NON-OPERATING INCOME:					
Grants	-	1,505,076	120,000	-	1,625,076
Interest Income	27,502	-	-	-	27,502
Interest Expense	<u>-</u>	<u>(16,325)</u>	<u>-</u>	<u>(862)</u>	<u>(17,187)</u>
Total Non-Operating Income (Expenses)	<u>27,502</u>	<u>1,488,751</u>	<u>120,000</u>	<u>(862)</u>	<u>1,635,391</u>
Net Income (Loss)	<u>\$ 95,543</u>	<u>\$ 369,113</u>	<u>\$ 488,143</u>	<u>\$ 142,775</u>	<u>\$ 1,095,574</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board
Economic Development Corporation
of Chippewa County
Kincheloe, Michigan 49788

We have audited the financial statements of the business-type activity and major fund of the EDC of Chippewa County, as of and for the year ended December 31, 2006, which collectively comprise the Economic Development Corporation's basic financial statements and have issued our report thereon, dated January 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the EDC of Chippewa County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Corporation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Corporation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Economic Development Corporation of Chippewa County financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Economic Development Corporation of Chippewa County in a separate letter dated January 22, 2007.

This report is intended solely for the information and use, of management, Board of Commissioners, state and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

January 22, 2007



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Board of Directors
Economic Development Corporation
of Chippewa County
Kincheloe, Michigan 49788

We have audited the financial statements of the Economic Development Corporation of Chippewa County as of and for the year ended December 31, 2006, and have issued our reports thereon dated January 22, 2007. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Economic Development Corporation of Chippewa County. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Economic Development Corporation of Chippewa County's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Board are described in Note 2. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Board during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Economic Development Corporation of Chippewa County's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, the adjustments we proposed, whether recorded or unrecorded by the Economic Development Corporation of Chippewa County, either individually or in the aggregate, indicate matters that could have a significant effect on the Economic Development Corporation of Chippewa County's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Economic Development Corporation of Chippewa County auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

Check Copies

Due to changes in bank practices, the Corporation does not receive canceled checks. The Corporation should contact the bank to obtain “imaged” checks to assure compliance with state retention policies and to assure proper clearing of amounts by the bank.

Independent Contractor Status

The Corporation should review the status of independent contractor payments to persons employed by the EDC. The IRS “20 point checklist” would assist the EDC in documenting contractor status. Additionally, written contracts should be executed for all services provided by contractors.

GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, with the Economic Development Corporation of Chippewa County required to implement the Statement for the year ended December 31, 2009. GASB Statement 45 is going to impact the future accounting of post-employment health insurance costs as it relates to the amount the EDC will be required to fund these benefits. Beginning in 2009, the EDC will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This report is intended solely for the information and use, of management, Board of Commissioners, state and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC". The signature is written in a cursive, flowing style.

Anderson, Tackman & Company, PLC
Certified Public Accountants

January 22, 2007